



BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER-SMITH
Commissioner

Arizona Corporation Commission

DOCKETED

JAN 29 2014

DOCKETED BY

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IN THE MATTER OF THE APPLICATION
OF AJO IMPROVEMENT COMPANY FOR
AN ADJUSTMENT IN ITS PURCHASED
POWER AND FUEL ADJUSTMENT
CLAUSE RATE.

DOCKET NO. E-01025A-13-0352

DECISION NO. 74298

ORDER

Open Meeting
January 14 and 15, 2014
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Ajo Improvement Company ("Ajo" or "Company") is certificated to provide electric service as a public service corporation in the State of Arizona.

2. On October 15, 2013, Ajo filed a request for an adjustment to its Purchased Power and Fuel Adjustment Clause ("PPFAC" or "adjustor") rate from \$0.01000 per kWh to \$0.03250 per kWh to address a projected under-collected account balance. Ajo indicates that customers are paying a fuel and purchased power rate that is below the actual cost of fuel and purchased power; therefore, if unadjusted, Ajo projects that its under-collected account balance will be equal to approximately \$283,170 by the end of 2014.

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1 Background

2 3. Ajo is an Arizona public service corporation certificated by the Commission to
3 provide electric, water, and wastewater service to customers in Pima County, Arizona. Ajo serves
4 an estimated 1,040 customers.

5 4. Decision No. 62764 (August 2, 2000) set a base cost of purchased power equal to
6 \$0.034699 per kWh, and a PPFAC rate of \$0.005332 per kWh. A PPFAC mechanism is
7 established to deal with changes in purchased power costs between rate cases. When the actual
8 cost of purchased power is higher than the base cost of purchased power and a utility's under-
9 recovery of costs is projected to persist into coming months, as in Ajo's situation, the PPFAC rate
10 is set to a positive number. However, when actual purchased power costs are lower than the base
11 cost of power, the PPFAC rate is set to a negative number. The PPFAC bank balance tracks the
12 differences between actual purchased power costs and those recovered through the combination of
13 base rates and the PPFAC rate.

14 5. In Decision No. 63828, (June 28, 2001) the Commission approved a PPFAC rate of
15 \$0.05000 per kWh. This PPFAC rate was approved in order to stop rapidly-continuing increases
16 in Ajo's under-collected PPFAC bank balance. According to Ajo, the rate reduced the under-
17 collected bank balance to the point where it was eliminated before the end of 2011.

18 6. In Decision No. 73079 (April 5, 2012), the Commission approved the current
19 adjustor rate of \$0.01000 per kWh that replaced the previous adjustor rate of \$0.05000 per kWh.
20 This rate was approved with the expectation that the existing over-collected bank balance at the
21 time would be eliminated by July of 2013, and that the Company would have an estimated under-
22 collected balance of \$20,244 by the end of 2013.

23 Account Balance

24 7. Based on actual kWh sales and the cost of purchased power during 2013, the bank
25 balance is expected to be significantly more under-collected than originally anticipated. In its
26 application, Ajo estimates the under-collected balance will be \$97,026 by the end of 2013. The
27 Company reports that higher than expected usage also contributed to the under-collection. Ajo

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1 states that in 2012, the unit cost for power averaged \$0.054721 per kWh, but in 2013 that figure is
2 expected to rise to an average rate of approximately \$0.06244 per kWh.

3 Ajo's Proposal

4 8. Ajo is proposing to increase the PPFAC rate from \$0.01000 per kWh to \$0.03250
5 per kWh, effective February 1, 2014. Based on its current estimate of power costs, Ajo believes its
6 proposal will eliminate the under-collected balance by early 2016. Based on average residential
7 monthly usage of 525 kWh, Ajo estimates that under its proposed rate, the average residential
8 customer would experience an increase of \$11.81 per month.

9 Staff Analysis

10 9. Staff notes that Ajo's proposed increase to the PPFAC rate would result in a
11 significant increase in customer bills. Therefore, Staff looked at various alternatives to mitigate
12 the bill impact. Staff recommends that the increase be spread over four years as follows:

13 2014 \$0.02438 per kWh

14 75 % of requested rate; average residential bill impact = \$7.55 over 2013 bill

15 2015 \$0.02763 per kWh

16 85 % of requested rate; average residential bill impact = \$1.71 over 2014 bill

17 2016 \$0.03250 per kWh

18 100 % of requested rate; average residential bill impact = \$2.55 over 2015 bill

19 2017 \$0.03575 per kWh

20 110 % of requested rate; average residential bill impact = \$1.71 over 2016 bill

21 10. Attached is a worksheet illustrating Ajo's current and Staff-proposed PPFAC rates
22 and the associated account balances based on actual sales and power cost data from January 2013
23 to October 2013 and forecasted data from November 2013 through December 2017.

24 Notice

25 11. Ajo notified Staff that it had published notice of its proposed adjustor rate in the
26 October 21, 2013, edition of the *Ajo Copper News*, a newspaper of general circulation in Pima
27 County. Staff recommends that Ajo notify its customers of the actual adjustor rate approved by
28 the Commission no later than with the first bill under the new rate.

1 Recommendations

2 12. Staff has recommended that the following PPFAC rates be approved starting
3 February 1 of each year and remain in effect until further order of the Commission:

4 2014 \$0.02438 per kWh

5 2015 \$0.02763 per kWh

6 2016 \$0.03250 per kWh

7 2017 \$0.03575 per kWh

8 13. Staff has also recommended that Ajo notify its customers of the actual adjustor rate
9 approved by the Commission no later than with the first bill under the new rate.

10 CONCLUSIONS OF LAW

11 1. Ajo is an Arizona public service corporation within the meaning of Article XV,
12 Section 2, of the Arizona constitution.

13 2. The Commission has jurisdiction over Ajo and over the subject matter of the
14 application.

15 3. The Commission, having reviewed Ajo's application and Staff's Memorandum
16 dated December 31, 2013, concludes that it is in the public interest to approve an updated PPFAC
17 rate as discussed herein.

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ORDER

IT IS THEREFORE ORDERED that Ajo Improvement Company's PPFAC rate is reset as discussed in Finding of Fact No. 12.

IT IS FURTHER ORDERED that Ajo shall notify its customers of the actual adjustor rate approved by the Commission no later than with the first bill under the new rate.

IT IS FURTHER ORDERED that this Order shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION
CHAIRMAN
COMMISSIONER
COMMISSIONER
COMMISSIONER
COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 29th day of January, 2014.


JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:EAH:sms\WVC

1 SERVICE LIST FOR: Ajo Improvement Company
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Ajo Improvement Company
Adjustment to Purchased Power and Fuel Adjustment Clause Rate

2013

	Actual Jan-13	Actual Feb-13	Actual Mar-13	Actual Apr-13	Actual May-13	Actual Jun-13	Actual Jul-13	Actual Aug-13	Actual Sep-13	Actual Oct-13	Forecast Nov-13	Forecast Dec-13
Ending Bank Balance from Previous Month	\$ (87,823.00)	\$ (74,352.00)	\$ (68,009.00)	\$ (53,322.00)	\$ (39,278.00)	\$ (21,436.00)	\$ 1,817.00	\$ 19,139.00	\$ 34,979.00	\$ 60,110.00	\$ 75,542.00	\$ 93,600.00
Jurisdictional Sales	813,247	785,123	597,768	593,734	872,754	938,811	1,139,185	1,275,701	853,190	801,394	801,394	801,394
Total Sales(Incl Spec Cont)	907,670	892,119	724,272	787,533	1,068,164	1,117,191	1,337,515	1,414,483	993,631	965,993	956,394	956,394
Special Contract Sales (Industrial kWh)	94,423	116,996	126,504	193,799	195,410	178,380	198,330	139,382	140,441	164,299	155,000	155,000
Actual Cost of Purchased Power	55,607	46,743	50,169	53,830	69,582	77,609	80,123	80,798	73,682	61,762	64,300	64,300
Unit Cost of Purchased Power	0.05126	0.05299	0.06927	0.06835	0.05514	0.06947	0.06590	0.05712	0.05712	0.06396	0.06723	0.06723
Base Cost of Purchase Power	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470
PPFAC rate of \$0.01 (effective April 1, 2012)	0.01000	0.01000	0.01000	0.01000	0.01000	0.01000	0.01000	0.01000	0.01000	0.01000	0.01000	0.01000
Total Rate Collected From Customer	0.04470	0.04470	0.04470	0.04470	0.04470	0.04470	0.04470	0.04470	0.04470	0.04470	0.04470	0.04470
Incremental Difference between authorized and actual recovery:	0.01656	0.00829	0.02457	0.02365	0.02044	0.02477	0.01521	0.01242	0.02946	0.01926	0.02253	0.02253
Net change to Bank balance:	\$ 13,471.28	\$ 6,343.21	\$ 14,686.70	\$ 14,043.87	\$ 17,841.55	\$ 23,253.45	\$ 17,322.03	\$ 15,840.41	\$ 25,131.18	\$ 15,432.45	\$ 18,057.58	\$ 18,057.58
Ending Bank Balance:	\$ (74,352.00)	\$ (68,009.00)	\$ (53,322.00)	\$ (39,278.00)	\$ (21,436.00)	\$ 1,817.00	\$ 19,139.00	\$ 34,979.00	\$ 60,110.00	\$ 75,542.00	\$ 93,600.00	\$ 111,658.00

2014

	Forecast Jan-14	Forecast Feb-14	Forecast Mar-14	Forecast Apr-14	Forecast May-14	Forecast Jun-14	Forecast Jul-14	Forecast Aug-14	Forecast Sep-14	Forecast Oct-14	Forecast Nov-14	Forecast Dec-14
Ending Bank Balance from Previous Month	\$ 111,658.00	\$ 127,170.00	\$ 130,100.00	\$ 133,030.00	\$ 135,960.00	\$ 138,890.00	\$ 141,820.00	\$ 144,750.00	\$ 147,680.00	\$ 150,610.00	\$ 153,540.00	\$ 156,470.00
Jurisdictional Sales	875,000	875,000	875,000	875,000	875,000	875,000	875,000	875,000	875,000	875,000	875,000	875,000
Total Sales(Incl Spec Cont)	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000
Special Contract Sales (Industrial kWh)	155,000	155,000	155,000	155,000	155,000	155,000	155,000	155,000	155,000	155,000	155,000	155,000
Actual Cost of Purchased Power	64,300	64,300	64,300	64,300	64,300	64,300	64,300	64,300	64,300	64,300	64,300	64,300
Unit Cost of Purchased Power	0.06243	0.06243	0.06243	0.06243	0.06243	0.06243	0.06243	0.06243	0.06243	0.06243	0.06243	0.06243
Base Cost of Purchase Power	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470
Assuming new PPFAC rate of \$0.02438 effective February 1, 2014	0.01000	0.02438	0.02438	0.02438	0.02438	0.02438	0.02438	0.02438	0.02438	0.02438	0.02438	0.02438
Total Rate Collected From Customer	0.04470	0.05908	0.05908	0.05908	0.05908	0.05908	0.05908	0.05908	0.05908	0.05908	0.05908	0.05908
Incremental Difference between authorized and actual recovery:	0.01773	0.00335	0.00335	0.00335	0.00335	0.00335	0.00335	0.00335	0.00335	0.00335	0.00335	0.00335
Net change to Bank balance:	\$ 15,512.16	\$ 2,929.66	\$ 2,929.66	\$ 2,929.66	\$ 2,929.66	\$ 2,929.66	\$ 2,929.66	\$ 2,929.66	\$ 2,929.66	\$ 2,929.66	\$ 2,929.66	\$ 2,929.66
Ending Bank Balance:	\$ 127,170.00	\$ 130,100.00	\$ 133,030.00	\$ 135,960.00	\$ 138,890.00	\$ 141,820.00	\$ 144,750.00	\$ 147,680.00	\$ 150,610.00	\$ 153,540.00	\$ 156,470.00	\$ 159,400.00

2015

	Forecast Jan-15	Forecast Feb-15	Forecast Mar-15	Forecast Apr-15	Forecast May-15	Forecast Jun-15	Forecast Jul-15	Forecast Aug-15	Forecast Sep-15	Forecast Oct-15	Forecast Nov-15	Forecast Dec-15
Ending Bank Balance from Previous Month	\$ 159,400.00	\$ 159,486.00	\$ 159,572.00	\$ 159,658.00	\$ 159,744.00	\$ 159,830.00	\$ 159,916.00	\$ 160,002.00	\$ 160,088.00	\$ 160,174.00	\$ 160,260.00	\$ 160,346.00
Jurisdictional Sales	875,000	875,000	875,000	875,000	875,000	875,000	875,000	875,000	875,000	875,000	875,000	875,000
Total Sales(Incl Spec Cont)	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000
Special Contract Sales (Industrial kWh)	155,000	155,000	155,000	155,000	155,000	155,000	155,000	155,000	155,000	155,000	155,000	155,000
Actual Cost of Purchased Power	64,300	64,300	64,300	64,300	64,300	64,300	64,300	64,300	64,300	64,300	64,300	64,300
Unit Cost of Purchased Power	0.06243	0.06243	0.06243	0.06243	0.06243	0.06243	0.06243	0.06243	0.06243	0.06243	0.06243	0.06243
Base Cost of Purchase Power	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470
Assuming a new PPFAC rate of \$0.02763 effective February 1, 2015	0.02763	0.02763	0.02763	0.02763	0.02763	0.02763	0.02763	0.02763	0.02763	0.02763	0.02763	0.02763
Total Rate Collected From Customer	0.06233	0.06233	0.06233	0.06233	0.06233	0.06233	0.06233	0.06233	0.06233	0.06233	0.06233	0.06233
Incremental Difference between authorized and actual recovery:	0.00010	0.00010	0.00010	0.00010	0.00010	0.00010	0.00010	0.00010	0.00010	0.00010	0.00010	0.00010
Net change to Bank balance:	\$ 85.91	\$ 85.91	\$ 85.91	\$ 85.91	\$ 85.91	\$ 85.91	\$ 85.91	\$ 85.91	\$ 85.91	\$ 85.91	\$ 85.91	\$ 85.91
Ending Bank Balance:	\$ 159,486.00	\$ 159,572.00	\$ 159,658.00	\$ 159,744.00	\$ 159,830.00	\$ 159,916.00	\$ 160,002.00	\$ 160,088.00	\$ 160,174.00	\$ 160,260.00	\$ 160,346.00	\$ 160,432.00

2016

	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Forecast Dec-16
Ending Bank Balance from Previous Month	\$ 160,432.00	\$ 156,257.00	\$ 152,082.00	\$ 147,907.00	\$ 143,732.00	\$ 139,557.00	\$ 135,382.00	\$ 131,207.00	\$ 127,032.00	\$ 122,857.00	\$ 118,682.00	\$ 114,507.00
Jurisdictional Sales	875,000	875,000	875,000	875,000	875,000	875,000	875,000	875,000	875,000	875,000	875,000	875,000
Total Sales(Incl Spec Cont)	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000
Special Contract Sales (Industrial kWh)	155,000	155,000	155,000	155,000	155,000	155,000	155,000	155,000	155,000	155,000	155,000	155,000
Actual Cost of Purchased Power	64,300	64,300	64,300	64,300	64,300	64,300	64,300	64,300	64,300	64,300	64,300	64,300
Unit Cost of Purchased Power	0.06243	0.06243	0.06243	0.06243	0.06243	0.06243	0.06243	0.06243	0.06243	0.06243	0.06243	0.06243
Base Cost of Purchase Power	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470
Assuming a new PPAC rate of \$0.03250 effective February 1, 2016	0.03250	0.03250	0.03250	0.03250	0.03250	0.03250	0.03250	0.03250	0.03250	0.03250	0.03250	0.03250
Total Rate Collected From Customer	0.06720	0.06720	0.06720	0.06720	0.06720	0.06720	0.06720	0.06720	0.06720	0.06720	0.06720	0.06720
Incremental Difference between authorized and actual recovery:	(0.00477)	(0.00477)	(0.00477)	(0.00477)	(0.00477)	(0.00477)	(0.00477)	(0.00477)	(0.00477)	(0.00477)	(0.00477)	(0.00477)
Net change to Bank balance:	\$ (4,175.34)	\$ (4,175.34)	\$ (4,175.34)	\$ (4,175.34)	\$ (4,175.34)	\$ (4,175.34)	\$ (4,175.34)	\$ (4,175.34)	\$ (4,175.34)	\$ (4,175.34)	\$ (4,175.34)	\$ (4,175.34)
Ending Bank Balance:	\$ 156,257.00	\$ 152,082.00	\$ 147,907.00	\$ 143,732.00	\$ 139,557.00	\$ 135,382.00	\$ 131,207.00	\$ 127,032.00	\$ 122,857.00	\$ 118,682.00	\$ 114,507.00	\$ 110,332.00

2017

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Forecast Dec-17
Ending Bank Balance from Previous Month	\$ 110,332.00	\$ 103,313.00	\$ 96,294.00	\$ 89,275.00	\$ 82,256.00	\$ 75,237.00	\$ 68,218.00	\$ 61,199.00	\$ 54,180.00	\$ 47,161.00	\$ 40,142.00	\$ 33,123.00
Jurisdictional Sales	875,000	875,000	875,000	875,000	875,000	875,000	875,000	875,000	875,000	875,000	875,000	875,000
Total Sales(Incl Spec Cont)	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000	1,030,000
Special Contract Sales (Industrial kWh)	155,000	155,000	155,000	155,000	155,000	155,000	155,000	155,000	155,000	155,000	155,000	155,000
Actual Cost of Purchased Power	64,300	64,300	64,300	64,300	64,300	64,300	64,300	64,300	64,300	64,300	64,300	64,300
Unit Cost of Purchased Power	0.06243	0.06243	0.06243	0.06243	0.06243	0.06243	0.06243	0.06243	0.06243	0.06243	0.06243	0.06243
Base Cost of Purchase Power	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470	0.03470
Assuming a new PPAC rate of \$0.03575 effective February 1, 2017	0.03575	0.03575	0.03575	0.03575	0.03575	0.03575	0.03575	0.03575	0.03575	0.03575	0.03575	0.03575
Total Rate Collected From Customer	0.07045	0.07045	0.07045	0.07045	0.07045	0.07045	0.07045	0.07045	0.07045	0.07045	0.07045	0.07045
Incremental Difference between authorized and actual recovery:	(0.00802)	(0.00802)	(0.00802)	(0.00802)	(0.00802)	(0.00802)	(0.00802)	(0.00802)	(0.00802)	(0.00802)	(0.00802)	(0.00802)
Net change to Bank balance:	\$ (7,019.09)	\$ (7,019.09)	\$ (7,019.09)	\$ (7,019.09)	\$ (7,019.09)	\$ (7,019.09)	\$ (7,019.09)	\$ (7,019.09)	\$ (7,019.09)	\$ (7,019.09)	\$ (7,019.09)	\$ (7,019.09)
Ending Bank Balance:	\$ 103,313.00	\$ 96,294.00	\$ 89,275.00	\$ 82,256.00	\$ 75,237.00	\$ 68,218.00	\$ 61,199.00	\$ 54,180.00	\$ 47,161.00	\$ 40,142.00	\$ 33,123.00	\$ 26,104.00